

107TH CONGRESS  
1ST SESSION

# S. 1762

To amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

DECEMBER 4, 2001

Mr. JOHNSON introduced the following bill; which was read twice and referred to the Committee on Health, Education, Labor, and Pensions

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## A BILL

To amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. INTEREST RATE PROVISIONS.**

4       (a) FFEL FIXED INTEREST RATES.—

5               (1) AMENDMENT.—Section 427A of the Higher  
6       Education Act of 1965 (20 U.S.C. 1077a) is  
7       amended—

1 (A) by redesignating subsections (l) and  
2 (m) as subsections (m) and (n), respectively;  
3 and

4 (B) by inserting after subsection (k) the  
5 following new subsection:

6 “(l) INTEREST RATES FOR NEW LOANS ON OR  
7 AFTER JULY 1, 2006.—

8 “(1) IN GENERAL.—Notwithstanding subsection  
9 (h), with respect to any loan made, insured, or guar-  
10 anteed under this part (other than a loan made pur-  
11 suant to section 428B or 428C) for which the first  
12 disbursement is made on or after July 1, 2006, the  
13 applicable rate of interest shall be 6.8 percent on the  
14 unpaid principal balance of the loan.

15 “(2) PLUS LOANS.—Notwithstanding sub-  
16 section (h), with respect to any loan under section  
17 428B for which the first disbursement is made on or  
18 after July 1, 2006, the applicable rate of interest  
19 shall be 7.9 percent on the unpaid principal balance  
20 of the loan.

21 “(3) CONSOLIDATION LOANS.—With respect to  
22 any consolidation loan under section 428C for which  
23 the application is received by an eligible lender on or  
24 after July 1, 2006, the applicable rate of interest

1 shall be at an annual rate on the unpaid principal  
2 balance of the loan that is equal to the lesser of—

3 “(A) the weighted average of the interest  
4 rates on the loans consolidated, rounded to the  
5 nearest higher one-eighth of 1 percent; or

6 “(B) 8.25 percent.”.

7 (2) CONFORMING AMENDMENT.—Section  
8 428C(c)(1)(A) of such Act (20 U.S.C. 1078–  
9 3(c)(1)(A)) is amended to read as follows:

10 “(1) INTEREST RATE.—(A) Notwithstanding  
11 subparagraphs (B) and (C), with respect to any loan  
12 made under this section for which the application is  
13 received by an eligible lender—

14 “(i) on or after October 1, 1998, and be-  
15 fore July 1, 2006, the applicable interest rate  
16 shall be determined under section 427A(k)(4);  
17 or

18 “(ii) on or after July 1, 2006, the applica-  
19 ble interest rate shall be determined under sec-  
20 tion 427A(l)(3).”.

21 (b) DIRECT LOANS FIXED INTEREST RATES.—

22 (1) TECHNICAL CORRECTION.—Paragraph (6)  
23 of section 455(b) of the Higher Education Act of  
24 1965 (20 U.S.C. 1087e(b)), as redesignated by sec-  
25 tion 8301(c)(1) of the Transportation Equity Act for

1 the 21st Century (Public Law 105–178; 112 Stat.  
2 498) is redesignated as paragraph (9) and is trans-  
3 ferred to follow paragraph (7) of section 455(b) of  
4 the Higher Education Act of 1965.

5 (2) AMENDMENTS.—Section 455(b) of the  
6 Higher Education Act of 1965 (20 U.S.C. 1087e(b))  
7 is amended—

8 (A) by redesignating paragraph (7) as  
9 paragraph (8); and

10 (B) by inserting after paragraph (6) the  
11 following new paragraph:

12 “(7) INTEREST RATE PROVISION FOR NEW  
13 LOANS ON OR AFTER JULY 1, 2006.—

14 “(A) RATES FOR FDSL AND FDUSL.—Not-  
15 withstanding the preceding paragraphs of this  
16 subsection, for Federal Direct Stafford Loans  
17 and Federal Direct Unsubsidized Stafford  
18 Loans for which the first disbursement is made  
19 on or after July 1, 2006, the applicable rate  
20 of interest shall be 6.8 percent on the unpaid  
21 principal balance of the loan.

22 “(B) PLUS LOANS.—Notwithstanding the  
23 preceding paragraphs of this subsection, with  
24 respect to any Federal Direct PLUS loan for  
25 which the first disbursement is made on or

1 after July 1, 2006, the applicable rate of inter-  
2 est shall be 7.9 percent on the unpaid principal  
3 balance of the loan.

4 “(C) CONSOLIDATION LOANS.—Notwith-  
5 standing the preceding paragraphs of this sub-  
6 section, any Federal Direct Consolidation loan  
7 for which the application is received on or after  
8 July 1, 2006, shall bear interest at an annual  
9 rate on the unpaid principal balance of the loan  
10 that is equal to the lesser of—

11 “(i) the weighted average of the inter-  
12 est rates on the loans consolidated, round-  
13 ed to the nearest higher one-eighth of one  
14 percent; or

15 “(ii) 8.25 percent.”.

16 (c) EXTENSION OF CURRENT INTEREST RATE PRO-  
17 VISIONS FOR THREE YEARS.—Sections 427A(k) and  
18 455(b)(6) of the Higher Education Act of 1965 (20  
19 U.S.C. 1077a(k), 1087e(b)(6)) are each amended—

20 (1) by striking “2003” in the heading and in-  
21 serting “2006”; and

22 (2) by striking “July 1, 2003,” each place it  
23 appears and inserting “July 1, 2006,”.

1 **SEC. 2. EXTENSION OF SPECIAL ALLOWANCE PROVISION.**

2 Section 438(b)(2)(I) of the Higher Education Act of  
3 1965 (20 U.S.C. 1087–1(b)(2)(I)) is amended—

4 (1) by striking “, AND BEFORE JULY 1, 2003”  
5 in the heading;

6 (2) by striking “and before July 1, 2003,” each  
7 place it appears, other than in clauses (ii) and (v);

8 (3) by striking clause (ii) and inserting the fol-  
9 lowing:

10 “(ii) IN SCHOOL AND GRACE PE-  
11 RIOD.—In the case of any loan—

12 “(I) for which the first disburse-  
13 ment is made on or after January 1,  
14 2000, and before July 1, 2006, and  
15 for which the applicable rate of inter-  
16 est is described in section 427A(k)(2);  
17 or

18 “(II) for which the first disburse-  
19 ment is made on or after July 1,  
20 2006, and for which the applicable  
21 rate of interest is described in section  
22 427A(l)(1), but only with respect to  
23 (aa) periods prior to the beginning of  
24 the repayment period of the loan; or  
25 (bb) during the periods in which prin-  
26 cipal need not be paid (whether or not

1           such principal is in fact paid) by rea-  
 2           son of a provision described in section  
 3           427(a)(2)(C) or 428(b)(1)(M);  
 4           clause (i)(III) of this subparagraph shall  
 5           be applied by substituting ‘1.74 percent’  
 6           for ‘2.34 percent.’”;

7           (4) in clause (iii), by inserting “or (l)(2)” after  
 8           “427A(k)(3)”;

9           (5) in clause (iv), by inserting “or (l)(3)” after  
 10          “427A(k)(4)”;

11          (6) in clause (v)—

12           (A) in the heading, by inserting “BEFORE  
 13          JULY 1, 2006” after “PLUS LOANS”; and

14           (B) by striking “July 1, 2003,” and insert-  
 15          ing “July 1, 2006,”;

16          (7) in clause (vi)—

17           (A) by inserting “or (l)(3)” after  
 18          “427A(k)(4)” the first place it appears; and

19           (B) by inserting “or (l)(3), whichever is  
 20          applicable” after “427A(k)(4)” the second place  
 21          it appears; and

22          (8) by adding at the end the following new  
 23          clause:

24                   “(vii) LIMITATION ON SPECIAL AL-  
 25                   LOWANCES FOR PLUS LOANS ON OR AFTER

1 JULY 1, 2006.—In the case of PLUS loans  
2 made under section 428B and first dis-  
3 bursed on or after July 1, 2006, for which  
4 the interest rate is determined under sec-  
5 tion 427A(l)(2), a special allowance shall  
6 not be paid for such loan during any 12-  
7 month period beginning on July 1 and  
8 ending on June 30 unless—

9 “(I) the average of the bond  
10 equivalent rates of the quotes of the  
11 3-month commercial paper (financial),  
12 as published by the Board of Gov-  
13 ernors of the Federal Reserve System  
14 in Publication H-15 (or its suc-  
15 cessor), for the last calendar week  
16 ending on or before such July 1; plus

17 “(II) 2.64 percent,  
18 exceeds 9.0 percent.”.

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